

**OFFICE OF INSPECTOR GENERAL  
LIST OF DEPARTMENT OF THE INTERIOR'S 10 MOST SERIOUS  
MANAGEMENT PROBLEMS**

**1. Management of Indian Trust Funds.** The Department reported "Inadequate Management of Trust Funds" as a mission critical material weakness in its fiscal year 1998 Accountability Report. General Accounting Office and Office of Inspector General audits, and reviews by independent accounting firms, also indicate that management of Indian Trust Funds is a continuing problem.

The Office of the Special Trustee for American Indians manages a total of \$3 billion of funds in trust, \$2.5 billion for Indian tribes and \$500 million for individual Indians. The trust funds are an accumulation of payments of claims and judgment awards, investment income, and revenues from 56 million acres of trust land. Revenues are derived principally from leases for mineral extraction, grazing, and timber. Reviews by the General Accounting Office (GAO), the Office of Inspector General (OIG), and independent accounting firms have identified long-standing serious and continuing problems in the management of the trust funds. According to the former Special Trustee, mismanagement and neglect have allowed the trust management systems, record-keeping systems, and risk management systems to deteriorate over a 20- to 30-year period and become obsolete and ineffective. Since 1990, the trust programs were often seriously understaffed and underfunded. The result was that the Government increasingly was unable to keep pace with the rapid changes and improvements in technology, trust systems, and private industry's most effective practices. We believe that these problems will continue until reforms, such as the High Level Implementation Plan, are fully funded and implemented.

Update

On July 31, 1998, the Special Trustee for American Indians issued the High Level Implementation Plan designed to correct/update information in the individual Indian money accounting system and in the land title and land management systems and to address weaknesses in records management, training, policy and procedures, and internal controls. The plan provides information on 13 sub-projects, the responsible bureaus and offices, supporting tasks, critical milestones, work plans, resource estimates, and accountable officials. The estimated budget for the plan, which covers fiscal years 1997 through 2000 is \$147.4 million. The Assistant Secretary for Policy, Management and Budget chairs regularly scheduled meetings to discuss the status and progress of the implementation of the plan, which are attended by representatives of the OIG and GAO.

In July 1998, GAO initiated a review of the High Level Implementation Plan. The objectives of the review were to (1) determine whether the plan addresses the key issues related to Interior's management of Indian trust funds and resources, (2) determine whether the plan includes measurable goals for dealing with each of these issues, (3) evaluate whether the implementation steps outlined in the plan are sufficient for achieving the issue-related goals,

and (4) identify any implementation issues that have not been adequately addressed in the implementation plan. The review was requested by the Senate Committee on Indian Affairs.

According to the GAO (Report No. GAO/AIMD-99-53, issued April 1999 and Report No. GAO/AIMD-99-238T, issued July 1999), Interior does not have reasonable assurance that its plan for improving Indian trust operations provides an effective solution for addressing long-standing management weaknesses. Specifically, Interior has not properly analyzed its information technology needs which are essential to the overall success of the plan, and until Interior develops an information systems architecture addressing all of its trust management functions, it cannot ensure that its information systems will not be duplicative or incompatible or will optimally support its needs across all business areas. Further, Interior also does not know whether its acquisition of a new service for managing Indian assets and land records (Trust Accounting and Asset Management System) will cost effectively meet trust management needs. Before deciding to contract with a service vendor, Interior did not adequately define important service requirements or sufficiently analyze technical alternatives, nor did Interior take the steps needed to minimize acquisition risks. In particular, it did not develop a risk management plan, ensure that the vendor's system could work with Interior's data and systems, or establish realistic project time frames. Thus, Interior faces an unnecessarily high risk that the service will not meet its general business and specific performance needs, and it lacks the means for dealing with this risk.

The independent public accountant issued a qualified opinion on the Indian trust funds financial statements for fiscal year 1997 because cash and overnight investments could not be independently verified, cash balances were materially greater than those reported by the U.S. Treasury, major deficiencies in the accounting systems' controls and records caused the systems to be unreliable, and certain beneficiaries of trust funds disagreed with balances recorded by the Office of Trust Funds Management and had filed or were expected to file claims against the Office. These conditions prevented the cash and trust funds balances and the receipts and disbursements from being audited. In addition, a potential liability to the Federal Government exists because of lawsuits filed concerning the Government's fiduciary responsibilities.

A report on the audit of the fiscal year 1998 financial statements for Indian trust funds has been completed by an independent public accounting firm and is in the final report writing phase. The fieldwork for the audit of the fiscal year 1999 financial statements is in process.

In July 1999, GAO initiated a review of the Department's Trust Asset and Accounting Management System (TAAMS). The objectives of the ongoing review are to (1) determine whether Interior has implemented disciplined software acquisition processes in such areas as requirements development, risk management, and system testing to reduce the risks associated with TAAMS; (2) review the testing process, including Interior's pilot, to determine whether the testing results can be used for assessing TAAMS suitability to meet

Interior's requirements; and (3) determine whether Interior is establishing needed policies and procedures for implementing TAAMS and adequate internal controls for assuring adherence to the new policies and procedures. The review was requested by the Senate Committee on Indian Affairs and the Senate Committee on Appropriations.

#### Fiscal Year 2000 Workplan

- "Oversight of Audit of Financial Statements for Fiscal Year 1999 for the Office of the Special Trustee for American Indians Tribal Individual Indian Monies, and Other Special Trust Funds Managed by the Office of Trust Funds Management" - As required by Section 10 of Office of Management and Budget Bulletin 93-06, the Office of Inspector General will (1) ensure that the audit conducted by the independent external auditors is performed in accordance with the requirements of the Bulletin, (2) provide technical advice and liaison to agency officials and the independent external auditors, and (3) monitor and report on management's progress in resolving audit findings reported by the independent external auditors (page 15 of the Audit Workplan Summary for fiscal year 2000).

- "Trust Management Improvement Project, Office of Special Trustee for American Indians." The objective of the audit is to evaluate the progress of the Office of the Special Trustee in implementing the Trust Asset and Accounting Management System (TAAMS). Specifically the audit will determine whether the System will meet stated objectives of a trust accounting and asset management system and will have adequate automated information system general and application controls to ensure data integrity (page 17 of the Audit Workplan Summary for fiscal year 2000). Since the GAO initiated a review of the TAAMS in July 1999, we will coordinate any audit work with the GAO audit team.

**2. Maintenance.** The Department reported "Inadequate Departmentwide Maintenance Management Capability" as a mission critical material weakness, and BIA "Irrigation Operations and Maintenance" and "Facilities Program" as material weaknesses, in its fiscal year 1998 Accountability Report. Office of Inspector General audit reports also indicate that maintenance is a continuing problem within four bureaus in the Department of the Interior.

Based on OIG audit reports, we determined that the Bureau of Land Management, National Park Service, Bureau of Indian Affairs, and the U.S. Fish and Wildlife Service had inadequate management controls and insufficient funding to effectively manage their maintenance activities. Consequently, the inventory of needed facility repairs and rehabilitations has increased significantly in recent years. The reported backlogs of maintenance projects for these bureaus totaled \$3.7 billion for fiscal year 1999. OIG and GAO testimonies and audit reports also concluded that: (1) BLM had not implemented adequate controls to ensure that the data in its maintenance system were reliable; (2) the NPS backlog estimate of \$6.1 billion was unsupported, overstated, and that the Park Service did not have a routine systematic process for determining the amount of the maintenance backlog; (3) individuals live, work, and study in BIA buildings that are unsafe and/or unsanitary and that the poor condition of BIA's educational facilities, detention centers, and irrigation projects resulted from insufficient funding for maintenance and repairs; failure to hold individuals responsible for ensuring that deficiencies were corrected; failure to assess, bill and collect maintenance charges; and inadequate preventive maintenance; and (4) OIG could not determine whether FWS backlog data were accurate or that the established controls were effective because the Service had not prepared supporting documentation for estimated maintenance costs.

The Department and its bureaus were required to disclose financial information on deferred maintenance in their fiscal year 1998 financial statements in accordance with Federal Accounting Standards Advisory Board Statement No. 6, "Accounting for Property, Plant and Equipment", and Office of Management and Budget requirements.

#### Update

OIG has addressed the issue of the reliability of bureau-reported financial data for deferred maintenance estimates, costs, and internal controls over transactions, by evaluating the bureaus' implementation of Statement No. 6, Office of Management and Budget requirements, and Departmental guidance. The OIG audits of the estimated deferred maintenance costs of the six bureaus reported that complete and reliable financial information needed on the maintenance backlog for accounting purposes and for budgetary funding requests was not available, and that previously reported internal control weaknesses still existed.

In April 1999, the OIG Auditor's Report on the Department of the Interior Financial Report for fiscal years 1998 and 1997 (which include the Consolidated Statements of Financial Position and Net Cost of Operations) stated that the weaknesses in the Department's and

bureaus' (BLM, NPS, BIA, and FWS) controls over deferred maintenance was a reportable condition. In accordance with Office of Management and Budget Bulletin 98-08, OIG reviewed the internal controls related to transactions and other data that support the reported information on deferred maintenance in the bureaus to determine whether the transactions were properly recorded, processed, and summarized. OIG found that formal policies for conducting periodic condition assessment surveys and computing deferred maintenance funding estimates needed to be established by the Department and the bureaus to promote consistency and accuracy. In addition, the supervisory and monitoring controls over deferred maintenance reporting required strengthening to ensure that the deferred maintenance estimates are supported by adequate documentation.

In September 1999, OIG issued two audit reports on deferred maintenance, as follows:

- "Deferred Maintenance, National Park Service, U.S. Fish and Wildlife Service, U.S. Geological Survey, Bureau of Indian Affairs, Bureau of Land Management, and Bureau of Reclamation" (No. 99-I-874), September 28, 1999. The report stated that the bureaus' deferred maintenance cost estimates, as reported in their fiscal year 1998 financial statements, were not completely reliable because they (1) were based on different assumptions, (2) were not supported with adequate documentation, (3) in some cases included costs for projects that did not meet the Federal financial standard for deferred maintenance, and (4) did not include all deferred maintenance costs. These deficiencies occurred because the bureaus had not addressed all of the significant issues relating to defining deferred maintenance, had not conducted the condition assessments needed to identify all deferred maintenance projects and related costs, and had not established adequate controls over deferred maintenance data.

- "Deferred Maintenance, National Park Service" (No. 99-I-959), dated September 30, 1999. The report stated that the Park Service's deferred maintenance cost estimates were not developed in accordance with Federal accounting standards and Departmental guidance. The deficiency occurred because the Park Service had not conducted all needed condition assessments of its assets, documented the assessments and the estimated project costs, or established adequate controls over the deferred maintenance data reporting/recording process.

#### Ongoing Audits:

- "Audit of Replacement School Construction (which represents a category of the Facilities Construction Program), Bureau of Indian Affairs" (Assignment No. W-IN-BIA-001-99D)

- "Deferred Maintenance, U.S. Fish and Wildlife Service" (Assignment No. E-IN-FWS-001-98.) We issued the draft audit report in October 1999.

Fiscal Year 2000 Workplan:

- We plan to review deferred maintenance costs reported within each of the six bureaus' financial statements (BIA, NPS, BLM, FWS, GSV, and BOR) for fiscal year 1999. (pages 45, 35, 57, 29, 99, and 85 of the Audit Workplan Summary for fiscal year 2000)

- "Maintenance and Repair of Indian Schools, Bureau of Indian Affairs". The objective of the audit is to determine whether the Bureau conducted its school maintenance and repair activities efficiently and effectively (page 55 of the Audit Workplan Summary for fiscal year 2000).

- "Facilities Maintenance, Bureau of Reclamation". The objective of the audit is to determine whether the Bureau of Reclamation maintained its facilities in accordance with Department of the Interior and Bureau of Reclamation requirements (page 96 of the Audit Workplan Summary for fiscal year 2000).

**3. National Park Service Housing.** The Department reported the "Needs Assessment and Cost of Constructing New Housing" as a mission critical material weakness for the National Park Service in its fiscal year 1997 and 1998 Accountability Reports. Recent Office of Inspector General and General Accounting Office audit reports and testimony indicate employee housing continues to be a problem area.

The Park Service provides Government housing to approximately 5,200 employees throughout the National Park System. The Park Service has stated that many of these housing units are in "poor" condition and that the "substandard housing" put Park Service employees and their families at "physical risk".

In the December 1996 audit report "Costs of Construction of Employee Housing at Grand Canyon and Yosemite National Parks" (No. 96-I-224), we concluded that the Park Service was not effectively managing its housing construction program to ensure that the limited funds available for employee housing were used in a cost-effective manner. Specifically, at two parks, we found that the Park Service incurred high construction costs to build "quality, energy-efficient single family homes". On October 29, 1997, the Inspector General testified before the House Subcommittee on Interior and Related Agencies, Committee on Appropriations, that at Yosemite National Park, the average housing unit cost \$584,000 to construct, and at Grand Canyon, the average housing unit cost \$390,000 to construct. However, comparable housing in areas near the two parks was considerably less expensive. For example, the cost of comparable private sector housing near Yosemite ranged from \$102,000 to \$250,000, and the cost of comparable private sector housing near Grand Canyon ranged from \$115,000 to \$232,000.

The General Accounting Office also found deficiencies in the Park Service's management of its employee housing program. Specifically, in testimony on Park Service's employee housing issues before the House Subcommittee on Interior and Related Agencies, Committee on Appropriations, the General Accounting Office said that the Park Service did not adequately assess its need for employee housing units, granted broad discretion to park managers, and lacked centralized oversight of its housing program. The October 29, 1997, testimony also noted that the Park Service had "inconsistencies in how [the Park Service employee housing program] is managed" and stated that there were "questions about whether housing decisions are being made in the best interest of the agency".

#### Update

In March 1999, the General Accounting Office testified to Congress (GAO/T-RCED-99-119) about the Park Service's progress in implementing Park Service commitments made in October 1997. GAO testified that in 1997, the Park Service issued a revised employee housing policy, began a park-by-park housing needs assessment pursuant to the new policy, and hired two contractors to perform the assessment. GAO testified that park managers and

regional officials disagreed with the contractors' findings that the Park Service had 522 more housing units than it needed, which raised serious concerns about the credibility of future housing initiatives and related funding requests.

We issued a survey report on Park Service housing, "Employee Housing Rental Income, National Park Service" (No. 99-I-919), dated September 30, 1999. The report stated that the Park Service provided housing to employees who did not qualify for housing according to the existing Park Service policy. At three parks visited, we identified 52 housing units that were occupied by ineligible employees. These employees were provided 30 housing units at two parks because the Park Service had determined that housing was not available within a 1-hour commute (or 2-hour round-trip commute). We determined that the employees were ineligible for the housing because the distances between the parks and available local housing were less than a 1-hour one-way or a 2-hour round-trip commute. At another park, employees were provided 22 housing units because the park management allowed ineligible employees to reside in available park housing pending the completion of the Park Service's housing needs assessment studies.

The OIG audit of employee housing planned for fiscal year 1999, which was to determine whether the National Park Service justified its need for additional employee housing and for major renovation/rehabilitation of employee housing facilities, was not conducted due to the General Accounting Office review and testimony and because of a significant reduction (a \$2 million reduction from \$12 million to \$10 million in fiscal year 2000) in the funding level proposed for construction planning in accordance with National Academy of Public Administration recommendations.



**4. Financial Management.** Our audits have found that the Bureau of Indian Affairs and the insular area governments have been unable to adequately account for revenues and expenditures associated with their operations.

**Bureau of Indian Affairs.** The Office of Inspector General issued a qualified opinion on the Bureau's financial statements for fiscal year 1998 (No. 99-I-937). The opinion was qualified because we were unable to obtain adequate assurance as to the amounts reported in the financial statements for 13 accounts reported in the financial statements (receivables and the related revenue, advances, allowance for doubtful accounts, and bad debt expense; construction-in-progress; land improvements, buildings, other structures and facilities, equipment, and related accumulated depreciation and depreciation expense; and undelivered orders) and the effect that these accounts have on the overall net position, change in financial position, budgetary resources and outlays, and related notes to the financial statements. In addition, we identified internal control weaknesses that we consider to be reportable conditions related to the accounts receivable and interest receivable accounts, construction-in-progress account, land improvements account, buildings account, other structures and facilities account, equipment account, general controls over automated information systems, deferred maintenance, stewardship reporting, and financial information integrity reviews. The reportable conditions related to the accounts receivable and interest receivable accounts, construction-in-progress account, land improvements account, buildings account, other structures and facilities account, equipment account, undelivered orders, general controls over automated information systems, and financial information integrity reviews are material weaknesses. We also identified specific issues concerning noncompliance with the Chief Financial Officers Act of 1990, the Federal Financial Management Improvement Act of 1996, the Debt Collection Improvement Act of 1996, the Credit Reform Act of 1990, and the Prompt Payment Act.

#### Ongoing Audits

- Audit of Financial Statements for Fiscal Year 1999, Bureau of Indian Affairs (C-IN-BIA-002-99-R)

**Insular Area Governments.** Our audits have shown that long-standing financial management deficiencies continue to exist in the U.S. insular areas. Specifically, to varying degrees, the insular area governments have been unable to (1) properly account for financial resources, including Federal grant funds, and report timely on their overall financial condition; (2) control expenditures and ensure that procurement transactions are made in accordance with existing competitive procurement requirements; and (3) properly account for and collect taxes and other amounts that they are owed. We found deficiencies in the insular areas as follows:

- The Government of the Virgin Islands had not fully complied with the Single Audit Act of 1982. As of September 30, 1999, the single audit reports for fiscal years 1995, 1996, and 1997 had not been issued, and a joint Inspector General task force was trying to work with Government officials to have the single audit for fiscal year 1998 started and completed expeditiously to provide Federal funding agencies with current information on the status of their grant funds. Meanwhile, the Government has been suffering severe cash flow problems, which have resulted in the accumulation of debt totaling close to \$1 billion, including amounts owed for income tax refunds, payments to vendors, negotiated salary increases to employees, Federal Emergency Management Agency disaster assistance loans, and accumulated operating deficits. The new Administration was making attempts to cut the size and cost of the Government. Recent OIG audits disclosed that the Government (1) had not effectively collected unemployment insurance taxes totaling more than \$18.5 million (No. 99-I-148), delinquent loans to members of the Government Employees Retirement System totaling about \$5.3 million (No. 99-I-261), and real property taxes totaling at least \$15.4 million (No. 99-I-379); (2) did not implement policies and procedures to restrict the hiring of political appointees to positions that, by law, should be part of the Personnel Merit System and did not ensure that the number of Government employees was reduced by the levels required by an early retirement law (No. 99-I-365); and (3) did not effectively manage, account for, and use Federal Transit Administration grants totaling \$2.8 million (No. 99-I-701). The Virgin Islands received \$255.9 million in Federal grants during fiscal year 1998 (latest available).

- The Commonwealth of the Northern Mariana Islands did not adequately control and account for Federal and local funds. Recent OIG audits disclosed that (1) the Public School System did not use competitive procurement requirements to make purchases totaling more than \$500,000 that were funded by Federal grants and could not locate equipment valued at almost \$200,000 that was purchased with Federal grant funds (No. 99-I-147) and (2) the Office of the Governor made expenditures from the Governor's discretionary fund that exceeded legislative appropriations by almost \$6.5 million and improperly reprogrammed appropriated funds totaling more than \$400,000 (No. 99-I-356). The Northern Mariana Islands received \$39.3 million in Federal grants during fiscal year 1998 (latest available), and the most recent single audit report (for fiscal year 1997) included a qualified opinion.

- The Government of Guam, although it provides the best level of overall financial management of the insular areas, needs to make further improvements. Our audit reports continue to disclose evidence of inadequate accounting for Federal funds and noncompliance with procurement laws. A recent multi-segment audit of the Guam Department of Education disclosed that the Department (1) paid substitute teachers at least \$21,000 for hours not worked, hours worked on nonschool days, and hours that were not adequately supported by required documents (No. 99-I-13); (2) did not ensure that Federally funded travel costs totaling at least \$47,000 were adequately supported (No. 99-I-255); and (3) did not adequately control program income of about \$32,000 or adequately account for and support expenditures totaling about \$2 million for a Federally funded after-school program

(No. 99-I-455). Guam received \$265.8 million in Federal grants during fiscal year 1998 (latest available), and the most recent single audit report (for fiscal year 1997) included a qualified opinion.

- The American Samoa Government continues to face financial management problems and receives operating subsidies through the Office of Insular Affairs, U.S. Department of the Interior. These subsidies total about \$23 million annually. The most recent single audit of the American Samoa Government, for the fiscal year ended September 30, 1993, resulted in a disclaimer of opinion because of serious financial management deficiencies. Although we did not conduct any audits of American Samoa Government operations during fiscal year 1999, our 1998 audit report (No. 98-I-653) on a legislative renovation project disclosed that the project was allowed to expand from a \$78,000 roof repair project to a comprehensive \$1 million building renovation project without proper planning, construction oversight, or use of competitive procurement. We plan to conduct an audit of the assessment and collection of taxes by the American Samoa Government during fiscal year 2000. American Samoa received Federal grants of \$90.7 million during fiscal year 1998 (latest available).

- The Federated States of Micronesia and the Republic of the Marshall Islands did not have effective controls over Federally funded loan programs. In the Federated States, the Rural Development Loan Program, which was funded by the U.S. Department of Agriculture and jointly operated by the Department and the Federated States, did not ensure that recipients of home loans totaling more than \$700,000 used the loans for houses that met program requirements and/or would be used for noncommercial, personal residency purposes (No. 99-I-953). The Marshall Islands Development Bank (1) used Compact funds totaling about \$13.7 million to issue commercial loans without adequate assurance that the loans were for purposes that conformed to approved economic development plans and that the borrowers had the capability to repay the loans, (2) did not enforce collection on additional Compact funded loans totaling about \$4.1 million that were delinquent, and (3) did not adequately account for outstanding Trust Territory loans totaling about \$380,000 (No. 99-I-952). The most recent single audit reports of all three Compact States (for fiscal year 1997) included qualified opinions.

#### Related Audit Reports

We issued 8 grant and financial-related audit reports in fiscal year 1999, including:

- "Federal Transit Administration Grants, Department of Public Works, Government of the Virgin Islands" (No. 99-I-701)

- "Medicaid Program, Department of Health, Government of the Virgin Islands" (No. 99-I-957)

- "Federal Grant Program Travel Activities, Department of Education, Government of Guam" (No. 99-I-255)

- "Management of Federal Grants, Public School System, Commonwealth of the Northern Mariana Islands" (No. 99-I-147)

- "Discretionary and Reprogrammed Funds, Office of the Governor, Commonwealth of the Northern Mariana Islands" (No. 99-I-356)

- "Legislature Renovation Project, Legislature of American Samoa, American Samoa Government" (No. 98-I-653)

Other audits relating to deficiencies in financial management in the insular areas issued during fiscal year 1999 include:

- "Unemployment Insurance Program, Department of Labor, Government of the Virgin Islands" (No. 99-I-148)

- "Marshall Islands Development Bank, Republic of the Marshall Islands" (No. 99-I-952)

#### Ongoing Audits

We have 5 ongoing grant and financial-related audits, which include:

- "Head Start Program Grants, Department of Human Services, Government of the Virgin Islands (Assignment No. V-IN-VIS-008-99)

- "U.S. Department of Defense Contract Funds, Department of Education, Government of Guam" (Assignment No. N-IN-GUA-004-97(E))

- "Management and Oversight of Selected Construction Projects, Republic of Palau", (Assignment No. N-IN-PAL-002-99)

#### Fiscal Year 2000 Workplan

Additional grant and financial-related audits in the fiscal year 2000 workplan include:

- "Public Assistance Program Grants, Department of Human Services, Government of the Virgin Islands" (page 132 of the Audit Workplan Summary for fiscal year 2000)

- "Management of Federal Grants, Department of Mental Health and Substance Abuse, Government of Guam" (page 107 of the Audit Workplan Summary for fiscal year 2000)

- "Assessment and Collection of Taxes, American Samoa Government" (page 119 of the Audit Workplan Summary for fiscal year 2000)

**5. Waste Management.** The Department's land management agencies face a major challenge in cleaning up sites contaminated by hazardous materials, abandoned mine sites, oil and gas wells, leaking underground storage tanks and pipelines, and illegal dumping. The cleanup costs to the Department have not been determined because of the unknown nature and extent of possible contamination and because the liability of the Department for cleanup in relation to other parties has not been established. However, the potential liability to the Department could be significant. For example, the Fish and Wildlife Service has identified approximately 18 major sites and 10 minor sites on national wildlife refuges and hatcheries with estimated costs of remediation ranging from \$103 million to \$120 million. Based on an evaluation of its inventory of 3,000 abandoned mines and 727 abandoned oil and gas wells, the Park Service estimated costs of remediation at approximately \$165 million. The Bureau of Land Management estimated that over 70,000 abandoned mine sites could exist on Bureau-administered land for which its estimated cleanup liability is not known. The Bureau of Reclamation has identified several potential environmental cleanup responsibilities, including abandoned mines and vehicle maintenance facilities, and has estimated that its potential cleanup liability ranges from \$20 million to \$91 million. Finally, the Bureau of Indian Affairs estimated that its cleanup liability for known sites is \$66 million and that it needs approximately \$100 million for studies and evaluations to identify other sites and to determine associated estimates of cleanup costs. The Department has focused its efforts on establishing policies and procedures for waste management, establishing a system to prioritize waste management sites, and seeking funds to correct identified sites.

#### Update

Beginning with the financial statements for fiscal year 1997, the Department implemented the Federal Accounting Standards Advisory Board Statement No. 5, "Accounting for Liabilities of the Federal Government," which requires the identification and recognition of environmental cleanup costs. Our audit of the fiscal year 1998 and 1997 financial statements included an evaluation of the Department's and the bureaus' processes for identifying and estimating future potential liability for these cleanup costs. The Department recognized an estimated liability of \$275 million in fiscal year 1998 and \$223 million in fiscal year 1997 "for sites where the Department either caused contamination or is otherwise related to it in such a way that it may be legally liable for cleanup of the hazard, and the environmental cleanup liability is probable and reasonably estimable." The estimated liability excludes estimates of future mineral site restorations for which Interior will voluntarily undertake remediation without legal responsibility. We did not take exception to the reported amounts.

#### Related Audit Reports

- "Department of the Interior Consolidated Principal Financial Statements for Fiscal Years 1996 and 1997" (No. 98-I-442)

- "Auditors Report on Department of the Interior Financial Report for Fiscal Years 1998 and 1997" (No. 99-I-438)

Fiscal Year 2000 Workplan

- "Hazardous Materials Management" - The objective of the audit is to determine whether the Bureau of Land Management satisfactorily implemented recommendations made in our 1992 and 1993 reports and managed its Hazardous Materials Management Program effectively. (Fiscal Year 1999 Workplan, page BLM-5, which is a carryover in the Fiscal Year 2000 Workplan)

- "Oil Spill Response Research Program" - The objective of the audit is to determine whether the Minerals Management Service has been operating the Oil Spill Response Research program in an economical and efficient manner and in compliance with applicable laws and regulations and Service policies and procedures. (Fiscal Year 1999 Workplan, page MMS-9, which is a carryover in the Fiscal Year 2000 Workplan)

- "Mining Law Administration" - The objective of the audit is to determine whether the (1) public lands subject to mining activity were managed by the Bureau of Land Management in accordance with the applicable laws, rules, and regulations, and (2) "grandfathered" mineral patent applications were processed in a timely manner. (Fiscal Year 1999 Workplan, page BLM-3, which is a carryover in the Fiscal Year 2000 Workplan)

**6. Revenue Collections.** The Department's bureaus are involved in numerous activities that generate revenues for the Federal Government. The revenue-generating activities include mineral lease collections (Minerals Management Service), water use repayments (Bureau of Reclamation), reclamation fees (Office of Surface Mining Reclamation and Enforcement), and resource and material sales and user fees (Bureau of Land Management, Fish and Wildlife Service, and National Park Service). In fiscal year 1998, Departmental bureaus collected revenues in excess of \$8 billion. The revenue collected by each bureau for fiscal year 1998 (latest available) is as follows:

<u>Bureau</u>	<u>Amount (in millions)</u>
Minerals Management Service	\$6,066
Bureau of Reclamation	631 <sup>1</sup>
Geological Survey	344
National Park Service	285
Office of Surface Mining	282
Multiple Office	231
Bureau of Land Management	226
Bureau of Indian Affairs	218
Fish and Wildlife Service	<u>124</u>
Total	<u>\$8,407</u>

Despite collecting over \$8 billion in revenues, the Department's bureaus can improve operations of activities that generate revenues and enhance revenue collections. The following paragraphs identify several specific revenue-related issues for possible action by individual bureaus.

An audit report on the Minerals Management Service's processing of notifications for the Stripper Oil Well Property Royalty Rate Reduction Program (No. 99-I-782) found that the Service did not timely confirm notifications it received and did not timely input the confirmed rates or review differences in the royalty rates confirmed with the royalty rates paid for properties participating in the program. As a result, we believe that royalties may have been underpaid by as much as \$3.5 million, excluding interest.

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<sup>1</sup>

The Bureau of Reclamation changed its method of reporting Minerals Management Service exchange revenue. Exchange revenues are inflows of resources to a Government entity that the entity has earned. In fiscal year 1997, the Bureau of Reclamation reported Minerals Management Service exchange revenue as revenue. To comply with Statement of Federal Financial Accounting Standard No. 7, "Accounting for Revenue and Other Financing Sources," the Bureau, in fiscal year 1998, is reporting this revenue as another financing source.



An audit report on the Minerals Management Service's royalty-in-kind demonstration pilots (No. 99-I-371) in the Gulf of Mexico to test gas and in Wyoming to test oil noted that the pilots will provide the Service with the knowledge and practical experience to implement a permanent royalty-in-kind system for those particular regions and products. However, because the United States oil and gas industry operates in distinct regions, we believe that the limited geographic coverage and products included under the pilot program will not provide a conclusive royalty-in-kind feasibility assessment for all Federal oil and gas production.

An audit report on offshore oil and gas rental revenues (No. 99-I-387) found that the Minerals Management Service has an opportunity to increase rental revenues by an estimated \$2.4 million to \$26 million for leases that will be issued between April 1, 1999 and December 31, 2000, by changing the terms of these leases before they are sold to require rental payments during periods of royalty relief.

A followup audit report (No. 98-I-250) on the recovery of irrigation investment costs by the Bureau of Reclamation, found that by revising its irrigation assistance repayment policy, the Bureau could significantly increase revenues. Under Bureau policy, irrigation assistance, that is, the repayment by power users of the irrigation construction costs beyond the ability of water users to pay, is recovered after the repayment of the power investment. Our 1989 report (No. 90-05) concluded that as a result of this policy, an estimated \$1.2 billion of additional revenues would not be collected over the repayment periods of the respective projects.

In "Concessions Contracting Procedures, National Park Service" (No. 99-I-626), we stated that the Park Service did not reissue expired concession contracts and permits in a timely manner, periodically adjust concessioner's fees as required by the Concessions Policy Act, and compute fees for the use of park facilities (including housing that was assigned to concessioners). We identified potential additional revenues of more than \$4 million that might be obtained from implementation of recommended concession fee increases and from the assessment of rental fees for concessioners' use of park housing. We also identified lost revenues of about \$1.3 million from delays in reissuing expired concession contracts and from the application of lower than recommended franchise fee rates.

In "Miscellaneous Receipts, U.S. Fish and Wildlife Service" (No. 00-I-50), we stated that the Service, without authorization, had assessed mineral rights holders fees for the mitigation of potential damages from their oil and gas exploration activities on five national wildlife refuges in Louisiana and Texas. Further, the Service had retained and used the fees improperly by having the fees (about \$6.8 million from fiscal years 1990 through 1998) deposited into Fish and Wildlife Foundation and contributed funds accounts or having the fees paid to vendors for refuge supplies and services.

#### Related Audit Reports

- "Followup of Recommendations Concerning Utility Rates Imposed by the National Park Service" (No. 98-I-406)

- "General Controls Over the Automated Information Systems, Royalty Management Program, Minerals Management Service" (No. 98-I-336)

- "Drainage Protection Program, Bureau of Land Management" (No. 99-I-358)

- "Administration of Revenues Due From Helium Produced on Federal Leases, Bureau of Land Management" (No. 99-I-395)

- "Processing Notifications for the Stripper Oil Well Property Royalty Rate Reduction Program," Minerals Management Service (No. 99-I-782)

#### Ongoing Audits

- "Stripper Oil Well Property Program, Bureau of Land Management" (Assignment No. C-IN-MOA-001-98-B)

- "Supporting Documentation for Operators Participating in the Stripper Oil Well Property Royalty Rate Reduction Program, Bureau of Land Management and Minerals Management Service" (Assignment No. C-IN-MOA-001-98(C))

- "Indian Royalty Disbursement Process, Minerals Management Service and Bureau of Indian Affairs" (Assignment No. C-IN-MOA-002-99)

- "Oil and Gas Transportation and Gas Processing Allowances, Mineral Management Service" (Assignment No. C-IN-MMS-003-99)

- "Followup of Recommendations Concerning Repayment of Municipal and Industrial Water Supply Investment Costs, Bureau of Reclamation" (Assignment No. W-IN-BOR-001-99 (D))

#### Update

The audits "Processing and Monitoring Right-of-Way Grants, Bureau of Land Management", "Royalty Management Reengineering Initiative, Minerals Management Service" and "Fire Protection Agreements with State and Local Governments, Bureau of Land Management" were in our fiscal year 1998 and 1999 workplans, but were not conducted because of higher priority audits. We plan to conduct the "Royalties on Tax Credits for Nonconventional Fuels, Minerals Management Service" (included in the fiscal year 1999 audit workplan) during fiscal year 2000.

## Fiscal Year 2000 Workplan

- "Impact of Deepwater Royalty Relief Act of 1995 (Public Law 104-58), Minerals Management Service." The objective of the review is to determine whether the criteria and process used to extend royalty relief to companies were in compliance with the requirements and intent of the Royalty Relief Act. The scope of the review will include examination of offshore oil and gas leases awarded prior to the November 1995 Act that have been approved for royalty relief (page 71 of the Audit Workplan Summary for fiscal year 2000).

- "Followup of Negotiated Royalty Settlements, Minerals Management Service." The objective of the audit is to determine whether the Minerals Management Service satisfactorily implemented the recommendations made in our September 1996 audit report on negotiated royalty settlements and whether any new recommendations are warranted. The audit will consist of a review of selected settlements, including multiple (global), single, Federal onshore and offshore, state, and Indian oil and gas (page 73 of the Audit Workplan Summary for fiscal year 2000).

- "Royalties on Tax Credits for Nonconventional Fuels, Minerals Management Service." The objective of the audit is to determine whether the Minerals Management Service initiated the collection of royalties from monetized tax credits on nonconventional fuels (page 75 of the Audit Workplan Summary for fiscal year 2000).

- "Use of Fee Demonstration Program Revenues, National Park Service". The objective of the audit is to determine whether the Park Service has ensured (1) that Recreation Fee Demonstration Program revenues were used properly and were used to supplement rather than replace funding for maintenance and other critical Park Service needs; (2) sufficient actions were taken to limit the amount of revenues used to collect fees; and (3) required procedures were followed for safeguarding, depositing, and recording fee revenues (page 37 of the Audit Workplan Summary for fiscal year 2000).

- "Use of Fee Demonstration Program Revenues, U.S. Fish and Wildlife Service." The objective of the audit is to determine whether the Fish and Wildlife Service has ensured that (1) Recreation Fee Demonstration Program receipts were used properly and that Program revenues were used to supplement rather than replace funding for maintenance and other critical Service needs and (2) receipts were collected in a cost-effective manner and deposited and accounted for properly (page 23 of the Audit Workplan Summary for fiscal year 2000).

- "Billing and Collection Procedures for Recovering Reimbursable Costs of Water Projects, Bureau of Reclamation". The objective of the audit is to determine whether the Bureau of Reclamation's billing and collection procedures for recovering reimbursable costs for Bureau projects were effective and in accordance with applicable laws, regulations, and contract terms (page 90 of the Audit Workplan Summary for fiscal year 2000).



**7. Inspection and Enforcement of Fluid Minerals.** The Department reported the failure to effectively inspect and enforce fluids minerals as a mission critical material weakness in its fiscal year 1997 Accountability Report. The Bureau of Land Management reported in its FY 1998 annual assurance statement, required by the Federal Managers' Financial Integrity Act, that the material weakness in this activity was corrected. However, our ongoing audit of the Stripper Oil Well Property Royalty Reduction Program disclosed that the Bureau was not providing sufficient oversight of operators to ensure that information on production of oil was correct. Specifically, the Bureau was not adequately reviewing the information on the "Monthly Report of Operations" (Form MMS-3160) prepared by operators of Federal onshore leases. The production information on this form is used to calculate reduced royalty rates for leases participating in the Program. As a result, royalties may have been underpaid by as much as \$43 million.

The Bureau of Land Management is responsible for enforcing regulations involving the development, production, and abandonment of Federal and Indian oil and gas onshore leases. At the end of 1998, there were about 20,000 producing onshore oil and gas leases on Federal lands and about 3,750 producing leases on Indian lands. Revenues from onshore oil and gas activities were \$873 million for 1998 (latest available). Because of the significance of this activity and the weakness in the inspection of production days reported by operators of stripper wells, we believe further improvements are needed in the inspection and enforcement program.

#### Related Audit Reports

- "Drainage Protection Program, Bureau of Land Management" (No. 99-I-358)
- "Rangelands Improvement Program, Bureau of Land Management (No. 99-I-677)

#### Ongoing Audits

- "Supporting Documentation for Operators Participating in the Stripper Oil Well Property Royalty Rate Reduction Program, Bureau of Land Management and Minerals Management Service" (Assignment No. C-IN-MOA-001-98)
- "Bonding for Oil and Gas Wells on Indian Trust Lands, Bureau of Land Management and Bureau of Indian Affairs." (C-IN-MOA-001-99)

In addition to our ongoing audits, we will evaluate the need for an audit of the actions which the Bureau has taken to correct deficiencies in the inspection and enforcement activity and, if appropriate, schedule an audit to determine whether the weaknesses have been corrected.

**8. Range Monitoring.** The Department reported "Inadequate Range Monitoring" as a mission critical material weakness in its fiscal year 1997 and 1998 Accountability Reports. In addition, our prior and recent audit reports indicate that inadequate range monitoring continues to be a problem, and has a significant affect on the rangelands and cultural resources for which Bureau of Land Management is responsible.

The Bureau of Land Management's Rangeland Management Program involves managing ecosystems to ensure their health, natural diversity, and long-term productivity. Rangeland management activities include administering livestock grazing permits, supporting wildlife habitats, serving wild horse and burro needs, promoting watershed health, and maintaining and improving the condition of rangelands to serve a variety of uses and values. The Bureau authorizes about 10 million animal unit months of livestock use annually to about 17,000 operators on grazing allotments encompassing 164 million acres in the western states. These operators graze about 3.7 million head of livestock. By contrast, there are only about 44,500 wild horses and burros on Bureau land. In its budget for fiscal year 2000, the Bureau requested \$67.2 million for range management and an additional \$10 million for rangeland improvements. The Bureau's Wild Horse and Burro Program has not achieved the appropriate management levels of wild horse and burro populations, which has prevented the Bureau from achieving a natural ecological balance on the range. In addition, the Bureau has not ensured that animals removed from the range and placed in its Adopt-a-Horse program are receiving humane care. According to the Bureau, high priority grazing allotments are not consistently monitored, which has resulted in many grazing decisions being delayed and in many grazing decisions that are not being adequately documented with monitoring data. In addition, the Bureau was not using consistent monitoring techniques, which resulted in inadequate range monitoring data. Finally, the Bureau's range monitoring activities have been impacted by a 1997 Interior Board of Land Appeals decision that required environmental impact and land use conformance reviews before livestock grazing permits or leases can be re-authorized.

#### Related Audit Reports

- "Rangelands Improvement Program, Bureau of Land Management" (No. 99-I-677)
- "Cultural Resource Management, Bureau of Land Management" (No. 99-I-808)

During fiscal year 2000, we will monitor the status of the Bureau's actions to correct the weaknesses in range monitoring. If actions are completed by October 2000, as planned, we will schedule an audit for fiscal year 2001 to evaluate the corrective actions.

**9. Land Exchanges.** The Department reported "Administration of the Nevada Land Exchange Appraisal Process" as a material control weakness in its fiscal year 1997 Accountability Report. The Department reported "Management and Oversight of the Land Exchange Program" as a material control weakness in its fiscal year 1998 Accountability Report as recommended in our 1998 followup audit report on land exchanges in Nevada.

The Bureau of Land Management conducts land exchanges under the authority of the Federal Land Policy and Management Act (Public Law 94-579) and the Federal Land Exchange Facilitation Act (Public Law 100-49). The Congress has emphasized the use of land exchanges and fee purchases to acquire lands containing resource values of public significance and to improve the manageability of Federal land by consolidating its land ownership. Office of Inspector General audits of land exchanges in 1991, 1992, 1996, and 1998, found that the Bureau has historically experienced problems in administering land exchanges in accordance with established standards and procedural controls. Specifically, a 1998 followup report of Nevada land exchange activity reported that the Bureau's efforts to establish and follow controls to ensure that Nevada land exchanges were processed in full accordance with applicable laws, regulations and procedures was generally unsuccessful for the exchanges reviewed. As a result, the Office of Inspector General found that the Nevada State Office lost about \$18.2 million on three exchanges.

#### Update

One issue from the 1998 followup report remains unresolved; namely, that the Bureau should establish a moratorium on land exchanges in the State of Nevada until it establishes and empowers a "land exchange review team" which includes non-Bureau representatives and personnel having a thorough knowledge of the appraisal process to review proposed exchanges. Although the Bureau established a review team, we do not believe that the team as currently constituted and authorized provides sufficient independence and expertise to ensure that future exchanges will be processed in full accordance with applicable laws, regulations and procedures.

#### Ongoing Related Audits

- "Utah Land Acquisitions and Exchange Activities, Bureau of Land Management"  
(No. W-IN-BLM-002-98)

**10. Automated Records System.** The lack of an automated land and minerals records system hinders effective and efficient management of resources by the Bureau of Land Management. In the 1980's the Bureau of Land Management began a modernization project to develop an automated system to support processing lands and minerals information, including leases, mining claims, rights-of ways, and other realty issues. The system was also intended to replace and maintain millions of existing historical and current records of land use authorizations, which were deteriorating paper records. The system, known as the Automated Land and Mineral Record System (ALMRS) was also intended to use spatial based technology to merge case records with survey records and other resource data to graphically display needed resource management information. Expenditures for ALMRS totaled about \$440 million from fiscal years 1983 through 1999.

The ALMRS software was formally tested in October 1998. Based on this operational test and evaluation, the Bureau determined that the ALMRS was not ready for deployment. The test results showed that users found the ALMRS to be inefficient, slow, difficult to use, and labor-intensive. ALMRS was also characterized as being poorly integrated into the Bureau's business processes, of limited value relative to the evolution of technology, and generally did not meet user expectations. The Bureau stated that some of the causes of these ALMRS deficiencies were lack of user involvement, over-optimistic project scope and schedule, impractical technology selection, poor contractor guidance, and overall inadequate project management.

ALMRS, as initially envisioned, has been significantly scaled back. Now, the Bureau is studying its "enterprise architecture" by reassessing the current and desired relationships among its business practices. The target architecture is planned to be identified and documented by April 2000. This will create the Bureau's vision for the future by aligning its automated applications and information technology with the Bureau's business practices. The Bureau's new projected time line for delivering land and resources information integrated with the target architecture has been set for 2004-2005.

#### Related Audit Reports

- "Major Management Challenges and Program Risks, Department of Interior" (GAO/OGC-99-9)
- "Testimony Before the Subcommittee on Interior and Related Agencies, Committee on Appropriations, House of Representatives: Land Management Systems: Major Software Development Does Not Meet BLM's Business Needs" (GAO/T-AIMD-99-102)
- "Land Management Systems: Major Software Development Does Not Meet BLM's Business Needs" (GAO/AIMD-99-135)